

VZCZCXRO6825  
PP RUEHDBU RUEHFL RUEHKW RUEHLA RUEHNP RUEHROV RUEHSL RUEHSR  
DE RUEHYE #0608/01 2451157  
ZNY CCCCC ZZH  
P 021157Z SEP 09  
FM AMEMBASSY YEREVAN  
TO RUEHC/SECSTATE WASHDC PRIORITY 9443  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 000608

SIPDIS

E.O. 12958: DECL: 08/25/2019  
TAGS: [ECON](#) [EFIN](#) [ENRG](#) [ETRD](#) [AJ](#) [AM](#) [TU](#)  
SUBJECT: ECONOMIC PROJECTS READY TO GO -- EVEN WITHOUT  
TURKEY BORDER OPENING

Classified By: Ambassador Marie L. Yovanovitch. Reason 1.4 (b/d)

SUMMARY

1. (C) Opening the border between Armenia and Turkey is generally expected to produce long-term economic benefits for both countries. However, even without formal opening of the border or establishment of diplomatic relations, projects in the transportation, energy and telecommunications are nearly ready to go, in some cases awaiting only the political go-ahead. While relatively modest, they provide an indication of the potential longer-term benefits to both countries from a complete restoration of political and economic relations. END SUMMARY.

LITTLE DOUBT ABOUT BENEFIT

2. (C) While some interlocutors fear that opening the border between Armenia and Turkey -- closed since 1993 -- will devastate the Armenian economy by flooding the country with less expensive imports and destroying local businesses, most Armenians believe that the overall benefit to the Armenian economy over time would be significant. A reopened border would bring increased trade flows as roads, railways and energy infrastructure reconnect the two countries and the region beyond, bringing significant savings to a country whose imports and exports are burdened by some of the highest transportation costs in the world (Note: A series of studies on the impact of opening of the border, published in 2007, estimated that transport costs in Armenia comprise 20-25 percent of the nominal value of the imported/exported goods. End Note).

3. (C) Opening of the border with Turkey would also diversify Armenia's import and export routes, and consequently its economic security. The August 2008 conflict between Russia and Georgia gave Armenia a serious scare, when food and fuel imports were temporarily blocked when Russia attacked the port of Poti and damaged the road and rail corridors through which many imports to Armenia travel. A significant amount of Turkish consumer goods are sent to Armenia via Georgia, so the actual trade impact may be smaller than anticipated. We cannot quantify the amount, because those goods appear as exports to Georgia in trade data.

BALL IN TURKEY'S COURT?

4. (C) While there may be many political hurdles -- mostly, on the Turkish side, related to the Nagorno-Karabakh conflict -- impeding the opening of the border and restoration of diplomatic relations, GOAM officials and private businessmen indicate that on a business level there are a number of joint projects ready to be implemented once Turkish authorities give their approval.

REOPENING THE GYUMRI-KARS RAILWAY?

15. (SBU) The rail line linking Gyumri (Armenia) and Kars (Turkey) -- about 40 km apart -- has been dormant since the closure of the border in 1993. The closure was a major economic blow to both towns. Unable to export to neighboring Armenia contributed to the economic decline of Kars -- population 80,000 -- where support in the business community for re-opening the border is strong. Over the years the GOAM has indicated its willingness to reopen the line, asserting that it is in excellent condition and is a much more economical alternative to the Kars-Tbilisi-Baku line now under development, with significant concessional financing from Azerbaijan. (Note: The USG and EU have declined to support the latter because it bypasses Armenia. End Note).

16. (C) During the Russia-Georgia conflict, Embassy Ankara contacted the GOT about using the Kars rail line as an alternative route to move supplies to Georgia. Transportation Ministry officials, however, said that the line from Kars to the Armenian border had not been maintained since 1993, and the line was unusable.

17. (SBU) Armenia's national railway began some restoration work on the 12 kilometers of track from Gyumri to the Turkish border in the weeks prior to the September 2008 soccer match with Turkey, in hopes that Turkish fans would travel by train to the match. While President Gul attended the match, there was no border opening, and this work was subsequently abandoned. Although there is no incentive to complete track and car upgrades without a commitment to resume service between the two cities, there appear to be few serious technical barriers to such resumption. Completion of the

YEREVAN 00000608 002 OF 003

Kars-Tbilisi-Baku route, however, would drastically reduce any incentive for Turkey to revive the line.

ELECTRICITY EXPORTS READY TO GO  
-----

18. (C) Following the September 2008 Turkey-Armenia soccer match in Yerevan, Armenian Electrical Networks CJSC and the Turkish UNIT Company signed a MOU under which Armenia would supply 1.5 billion kWh per year of electricity to Turkey, with the amount eventually increasing to 3.5 billion kWh. The agreement called for Armenia to begin transmitting electricity to Turkey by spring 2009. Deputy Energy Minister Areg Galstyan told Econoff last fall that implementation depended primarily on the replacement of several kilometers of electrical wiring and refurbishment of a substation on the Turkish side that had been dismantled and damaged after the border was closed in 1993.

19. (SBU) The GOAM initially described this agreement as largely symbolic, unlikely to generate much revenue, but an important first step in the normalization process. The ultimate aim will be to reconnect Armenia to a regional electrical grid with Turkey and eventually Azerbaijan; the country has been disconnected from the grid--with outlets only to Georgia and Iran--since the Nagorno Karabakh conflict and the closure of the border in 1993. Reconnecting to a regional power grid would diversify sources of electricity and increase options for Armenia to offload excess power, increasing the stability of the country's electricity infrastructure. It would also help meet sharply increasing electricity demand in Turkey, and reduce Turkey's natural gas imports and consumption for electricity production.

110. (SBU) Looking to the longer-term prospect of reconnecting into a regional power grid, the GOAM, with significant support from the World Bank and the German agency KfW, plans to upgrade a high-voltage substation in Gyumri, the last one before the Turkish border. While Armenia can export power to Turkey -- per the agreement reached last fall -- with its existing infrastructure, this upgrade will enable more secure and stable operations, with greatly reduced risk of

shutdowns.

¶11. (C) While the agreement to export power to Turkey was initially premised as independent of a border opening, in recent months it may have encountered political resistance on the Turkish side. Galstyan told Emboffs in May that he did not expect the deal to be implemented until the opening of the border, but expressed optimism that it would open soon. On August 20 Galstyan told us that Armenia's transmission lines are ready to go, and that his Turkish counterparts say they are ready to begin receiving power, but are awaiting approval from Turkey's energy regulator.

#### TELECOMMUNICATIONS

¶12. (SBU) There is no direct telecommunications linkage between Turkey and Armenia. Such a direct linkage would ensure international connectivity for Armenia in case the existing links to Georgia and Iran are disrupted. Connecting to European fiber optic networks, via Turkey, would lower wholesale and retail communications tariffs for Armenia's fixed and mobile telephony as well as for internet services. According to Armenia's Public Services Regulatory Commission (PSRC), the current lack of connectivity could be rectified easily, as technology, cost and business concerns are not barriers. PSRC commissioner Samvel Arabajyan told Emboffs that Armenian firms are prepared to invest in extending cables up to the Turkish border; on the Turkish side the carrier simply needs the approval of its regulator. Telecommunications firms can take advantage of existing rights-of-way along energy corridors, roads and railways to run cabling across the border. Alternatively, they could avoid installing cables through the use of short-distance, high-capacity wireless links.

#### COMMENT

¶13. (C) Electricity sales, a direct telecommunications link and restoration of the Gyumri-Kars railway are three cross-border Turkish-Armenian projects that could be implemented in short order, the first two even without an opening of the land border. All three would bring obvious benefits to both countries in terms of trade and stability of the energy and telecommunications systems. While we are hearing only one side of the story, businesses and officials on the Armenian side insist that the holdup is political approval on the Turkish side, and that they are ready to proceed with these projects without any preconditions. These

YEREVAN 00000608 003 OF 003

projects highlight some of the potential short-term gains that would come even from a relatively modest degree of economic cooperation. No matter what happens with rapprochement, we should be pushing both sides to pursue them, recognizing that sometimes politics follows business. We believe there are numerous longer-term benefits available to both countries from a full restoration of diplomatic relations and opening of the border, which we will examine septel. END COMMENT.

¶14. Embassy Ankara has cleared on this cable.  
YOVANOVITCH